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The Falklands Dispute: Implications for US Relations With Latin America and Western Europe

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An Intelligence Assessment

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An Intelligence Assessment

*Information available as of 15 June 1982
has been used in the preparation of this report.*

This memorandum was prepared by [redacted]
of the Office of African and Latin American Analysis
and by [redacted] of the Falkland Islands
Working Group. Comments and queries are welcome
and may be directed to the Chief, South America
Division, ALA, [redacted]

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This paper has been coordinated with the National
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**The Falklands Dispute: Implications
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Key Judgments

The final resolution of the Falklands crisis will determine the extent and duration of related damages to US ties with Latin America. The broadest and most lasting impact would be caused by severe political and economic instability in Argentina leading to a leftist Peronist government.

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Even if the crisis were to be resolved under conditions well short of that worst case, the US decision to support the United Kingdom—and especially Washington's imposition of sanctions on Argentina—will leave the US position in Latin America somewhat impaired. Relations with several countries probably will be cool for a few years. Over time losses can be partially or even substantially redressed. Much will depend on the efficacy of US damage-limiting measures.

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The principal, abiding consequence of the crisis in both bilateral and regional terms will be to reinforce factors that have progressively reduced the once-great US influence in the region. The extent of deepening of that gradual but persistent effect will vary from country to country and from subregion to subregion. It will be more pronounced in South America than in the Caribbean Basin, where the net effect on US interests will be minor.

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The crisis will have less impact on Washington's relations with its European Allies than with Latin America. The war is not the central concern to continental NATO members that it is to many Latin American states, and it is not viewed in Europe as a major indicator of overall US policy toward NATO. Nevertheless, we believe the crisis could tend to shape future responses to some important issues, such as the Alliance's role in the out-of-area interests of member states.

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The Impact in Latin America

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The US stance in favor of the United Kingdom has produced wide and strong resentment in Latin America. Intellectually, for some time Latin Americans have recognized and grudgingly accepted the primacy for the United States of its interests in Western Europe over those in Latin America. The special nature of the historical US bonds with the British were also understood. But the dramatic and unequivocal confirmation of the secondary place of Latin America in US strategic concerns came as a severe psychological shock to many Latin Americans.

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The force of that blow was intensified by its occurring in the face of formal expressions of solidarity with Argentina by the great majority of Latin American governments. The perception of affront is only slightly mitigated by the fact that the solidarity was evoked by emotional and instinctive identification with Argentina as a fellow Latin American state and that Latin rhetorical unity obscured extensive disagreement with the original Argentine resort to force.

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The invocation of Latin American solidarity has tapped the pervasive and persistent strain of anti-Americanism in Latin American nationalism. Uneasiness about the implications of the conflict for a continent with many territorial disputes, uneasiness over Buenos Aires's use of force, and a general dislike for Argentina as a hemispheric actor have been submerged at least temporarily in a wave of strident criticism of US disregard of perceived Latin American interests.

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Some Latin American leaders—particularly in Venezuela, Panama, and Peru—have called for revisions (unspecified) of the Rio Treaty; others, striking an old theme, have demanded US exclusion from the Organization of American States (OAS) or the creation of some other purely Latin American political organization. Despite the high quotient of emotion in many of these instinctive reactions and the strong likelihood that extravagant impulses will give way to more sober and realistic appreciations, US relations with certain

South American countries will never again be quite the same. Moreover, the nature and operation of the inter-American system and its institutions will be affected; the continuing value of the OAS and the Rio Treaty to Latin states will deter efforts toward radical changes. Over the longer term, a third area of concern to the United States—peace among states of the region—could be jeopardized.

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In economic terms, the crisis is unlikely to have much impact on US interests—other than in Argentina. Once emotions cool, the region's need for foreign funds and skills will cause Latin American leaders to resume a more pragmatic approach to Washington. US willingness to respond to economic concerns in such areas as trade, access to capital, debt service accommodations, policing of transnationals, and technology transfer should hasten the regaining of lost ground. But the decades-old trend toward greater political, economic, and military independence from the United States will continue regardless of US actions.

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The Soviet Union, which sees any Latin American conflict with the United States as useful, is attempting to exploit the new opportunities to expand its influence. Nevertheless, embedded Latin suspicions of Soviet purposes, corresponding fears of subversion, and Moscow's inability to play a major role in Latin American economic development—the central problem for all states of the region—will limit Soviet gains. Soviet weapons may be more attractive to some rearming South American countries, but attempts to gain political advantage from arms sales will be resisted.

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The Cubans and Nicaraguans will continue their rhetorical support for Argentina in hopes of reducing US influence in the region and undercutting US policy toward Central America. The transparent cynicism of their position will tend to reduce their degree of success.

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US Bilateral Relations

The impact on US bilateral relations in the hemisphere will range from significant, long-term damage in the case of Argentina to little noticeable effect in Mexico, Central America, and the Caribbean. []

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With South America

South American reaction to the US position in the crisis falls into three broad categories:

- Those states adopting a hard, critical stance toward Washington—Argentina, Venezuela, Peru, and, to a much lesser extent, Bolivia.
- Those countries taking a middle position, sympathizing with Argentina but trying to avoid alienating the United States—Brazil, Ecuador, Uruguay, and Paraguay.
- Those taking a “soft” approach, opposing Argentine actions on juridical and strategic grounds—Colombia and Chile. []

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Among those countries taking a strong stand in the crisis, the United States will suffer significant, long-term damage to its relations with Argentina and with the military in Peru. Historically, US relations with Argentina have never been close; now, Buenos Aires will be hostile for years to come. US firms in Argentina are likely to face tougher regulations and a loss of investment opportunities. In general, the Argentines probably will try to cut back imports from the United States—which totaled \$2 billion in 1981. []

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Underlying political and economic problems that existed before the invasion still persist and will now reemerge. Civilian groups are likely to blame the junta for the military failure and join the call for a rapid return to elected government. We believe regime leaders will try to ward off these calls in two ways. First, they will maintain an aggressive posture toward the British and pledge to press Argentine claims to the Falklands. Second, they will move toward transition to civilian rule—the anticipated political party statute due in late June will be a crucial first step in the process. Civilian leaders would be likely to accept a transition period of military rule—albeit with their participation—to assure a smooth transfer. []

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The motives for Venezuela's strong pro-Argentine stand are complex and linked to a variety of nationalistic and domestic political issues. The crisis will produce some short-term negative aspects in US-Venezuelan relations; in public, Caracas will criticize the United States and try to distance itself from US policies. But because both countries have parallel economic and security interests we believe Caracas will become more cooperative in time, though bickering and footdragging probably will characterize its private dealings with Washington over the short term. []

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In Peru, the sentiment of military leaders and widespread popular support for Argentina are dragging President Belaunde into an increasingly uncomfortable pro-Buenos Aires position. One recent poll, for example, shows that over 90 percent of the public strongly backed Argentina. Lima's stand in the conflict relates directly to its dispute with Chile; the US position is a secondary consideration. Most of Peru's civilian leaders, and particularly President Belaunde, want friendly ties with Washington. US political and economic interests should suffer no serious or enduring damage. []

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The Peruvian high command, however, reportedly is convinced that Washington is an unreliable partner. Any prospects of weaning it away from a heavy dependence on Soviet military equipment have been dashed for the foreseeable future. Bolivia, with Argentine largess a thing of the past, will continue to push for improved relations and economic assistance from Washington. []

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US relations with those countries adopting a middle position should not be significantly affected. Brazil, more than any country in the region, has a strong appreciation of its global political and economic interests and will strive to avoid damaging its ties with either the United States or the United Kingdom. Nevertheless, Brasilia values its improved relations with Buenos Aires and did not want to lag behind its Spanish-speaking neighbors in offering vocal and material support. []

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25X1 [redacted] Brazil's chief concern is post-crisis instability in Argentina that might bring a leftist-Peronist regime to power. The Brazilians also worry that Argentina will begin new provocations against the Chileans. We believe Brazil will, therefore, continue its delicate balancing act, trying to avoid the wrath of resurgent Argentine nationalism and, at the same time, protect its broader economic and security interests. *Ecuador, Uruguay, and Paraguay* were anxious to stay clear of the conflict, and the United States will neither gain nor lose in these countries. [redacted]

purposes—be unaffected by events in the South Atlantic. The dependence of *El Salvador* and *Costa Rica* on the United States allows for little substantive change in the relationship. Despite the bitter reaction of the pro-Argentine Commander in Chief, Alvarez, the case of *Honduras* is similar. Bilateral relations are subject at least to short-term erosion, however, if increased US military and economic assistance is not forthcoming. *Guatemala* has found Argentina a more reliable ally than the United States in recent years, but this appears likely to be offset by the desire of many officers in the new government for renewed close ties to Washington. [redacted] 25X1

25X1 US-Colombian relations should not be adversely affected by the dispute. Despite considerable public sympathy for Argentina, the Colombian Government, with an eye to Nicaragua's claim to Colombian islands, maintained a highly principled, legal position in the crisis. Bogota's calls for the withdrawal of Argentine troops and its attempt to push a moderate resolution in the OAS dovetailed with US policy. President-elect Belisario Betancur is likely to follow a more nationalistic policy, however, and for this reason, Bogota probably will be more independent of the United States in the Caribbean Basin. *Chile*, concerned that it will be the next victim of Argentine aggression, is pushing for a resumption of military assistance and closer ties with the United States. [redacted]

Panama's strong support for Buenos Aires during the crisis is related directly to the Canal Treaty issue. More than any other regional nation, Panama has fervently and effectively used Latin solidarity on this issue and its related territorial question. Panama anticipates the need to exploit it again as the Canal Treaty implementation process draws on and differences over treaty interpretation arise. [redacted] 25X1 25X6

25X1 [redacted]

UNCODED [redacted] Central America, and the Caribbean

For reasons of individual self-interest, but partly fortuitously, this crisis will least affect relations with countries geographically closest to the United States. Indeed, for those English-speaking states that are already tentatively well pleased with recent US attention to the Caribbean, the dispute augurs better ties. *Guyana*, concerned by the prospect of a Venezuelan move to reclaim the Essequibo, has broken ranks with its socialist allies and has joined the English-speaking states on this issue. [redacted]

25X1 The alignment of *Cuba, Nicaragua, and Grenada* with Argentina injects no important new ingredient in the already sour relations these nations have with Washington. [redacted]

Security and Regional Cooperation

Even before the strife in the Falklands, it was increasingly difficult for Washington to mobilize the hemisphere against the threat from international Communism. Most South American governments, though concerned about Cuba and Nicaragua, see the struggle in Central America as primarily a US problem. Moreover, they fear that US policy has the effect of introducing East-West tensions into the region. Last year, for example, this kind of concern and the fear that the United States would take direct action in Central America prompted the Venezuelan Foreign Minister to discuss with his counterparts in Brazil,

Central Americans, anchored by their own crisis to their positions with Washington, will—for practical

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Argentina, and Mexico the formulation of a unified Latin American foreign policy to sensitize Washington to the regions' concerns. [redacted]

This does not imply that the Latin Americans are indifferent to the threat posed by Communism or that, in case of naked aggression, the Rio Treaty could not be invoked. It does suggest, however, that any effort to trigger the collective security mechanism against Cuba or Nicaragua will meet strong resistance for some time to come. [redacted]

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In the Caribbean Basin

In Central America the United States is likely, as a result of the Falklands crisis, to be much more on its own. In spite of Venezuela's strong support for Argentina and intense criticism of the United States, Caracas's enduring geopolitical interests in the Caribbean Basin as a whole—as well as its desire to redress losses it has suffered with pro-UK Caribbean states—will leave its policy toward the subregion basically intact and parallel to Washington's. Caracas will, therefore, continue its assistance programs in the area. But the Venezuelans, already increasingly concerned about the political costs of cooperating with Washington, will want even less public identification with US activities there. In private, footdragging and bickering will characterize Venezuelan dealings with US officials on a variety of Caribbean Basin issues. This will be evident in the negotiations on the Caribbean Basin Initiative. Caracas, for example, declined to attend a meeting on the Caribbean Basin scheduled to be held in Paris because of European sanctions against Argentina. The fallout of the Falklands crisis will also complicate US efforts to involve other donors, such as Brazil. [redacted]

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Reduced resources will substantially limit Argentina's role in Central America. Moreover, Buenos Aires's bitterness toward the United States for its position in the Falklands' crisis could lead Argentina to pursue policies that diverge from our own. Buenos Aires, however, probably will not make a decision on its future course in Central America until the domestic

political situation sorts itself out. Moreover, the Argentines may reason that Washington still might soften the British position in hopes of recouping lost ground in Latin America. [redacted]

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In the OAS

As a vehicle for regional consultation and coordinated action, the already ineffectual OAS has been further weakened by the Falklands crisis. Nevertheless, we believe the calls by some Latin American officials for the creation of a Latin-only political organization—an OAS without the United States and perhaps the English-speaking countries of the Caribbean—will be unsuccessful. The OAS serves some important Latin American purposes, such as a forum for engaging Washington. The historic difficulty in forming a cohesive and effective Latin American political entity further suggests that radical action will be avoided. [redacted]

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Similarly, far-reaching revision of the Rio Treaty is not likely, although Latin American governments will probably discuss this possibility over the coming months. [redacted]

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The Falklands issue sharply aggravated the longstanding differences between the English-speaking Caribbean members of the OAS and most of the Latin Americans. The mutual distrust illustrated by their opposite stances on the Falklands will probably grow and debilitate the OAS further. Buenos Aires's traditionally limited cooperation with the United States in the OAS is certain to reappear, adding further to the decline of the institution. Nonetheless, emotional demands for the restructuring or replacement of the OAS will be resisted by cooler heads in Brazil, Colombia, Chile—and possibly even Venezuela, which, [redacted] may be having second thoughts about its earlier vanguard position in favor of far-reaching changes in the inter-American system. [redacted]

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Many Latin American leaders—and especially the Brazilians—have serious doubts about the viability of Latin-only regional organizations, particularly for political and security purposes. Those that exist—and they are essentially economic groupings—have not

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functioned well. As was demonstrated by the failure in 1981 of Venezuelan efforts to orchestrate a common Latin American foreign policy, attempts to forge political unity have foundered on mutual suspicions and the incompatibility of the interests of individual states. Superficial or temporary identity of views has tended to dissipate where fundamental divergences of interests have come into play. The fate of the so-called Southern Cone alliance is a subregional case in point.

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Only on US-oriented issues—and exclusively economic ones—have the Latin Americans been able to achieve unanimity. Despite the many serious shortcomings of the OAS, we believe most Latin governments ultimately will judge that it is the one judicial body in which they can collectively pressure or restrain Washington and take it to task for its actions.

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Considerations of this kind also will influence the Latin American approach to the Rio Treaty, the collective security instrument of the inter-American system. The Treaty is important to many of its Latin American members as a safeguard against intra-hemisphere conflicts. Moreover, it embodies the US commitment to the strategic defense of Latin America against the Soviet threat. We judge that these basic concerns make it doubtful that the Treaty will be jettisoned or radically revised.

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Military Sales and Training

The crisis will accelerate the erosion of military collaboration with the United States in a number of areas. Over the past two decades, Latin American efforts to diversify military purchases and training were part of a broader drive to achieve a greater measure of political and economic autonomy from Washington.

The Latin Americans had mixed results with their European equipment in terms of cost, reliability, and provision of spare parts. Moreover, Argentina and Chile discovered that Western Europe—like the United States—would hold up arms sales because of the issue of human rights abuses.

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It is still too early to assess the net impact of the crisis on US military sales. On the one hand, Venezuela has indicated that it will purchase F-16 aircraft from the United States, and Chile, fearing more problems with Buenos Aires over the Beagle Channel, is pushing to buy US equipment.

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The Brazilian high command will continue to rebuff any notion of an expanded leadership role for the United States in hemispheric defense. Brazilian lack of interest in a multilateral arrangement in the South Atlantic will be reinforced by the crisis; Argentina's association with the United States in such an undertaking is out of the question.

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Washington's sanctions against Argentina—according to the US Embassy in Lima—convinced key Peruvian military leaders that the United States is unreliable, both as a partner and as a source of weapons. Thus, Peru will continue to rely heavily on the USSR for major aircraft and ground equipment, which it now receives on concessionary terms. [redacted]

prepared for prolonged, inconclusive negotiations. Caracas probably will underscore this warning with occasional saber rattling and a continued buildup of its forces in the border area. [redacted]

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Threats to Regional Peace

Over the medium-to-long term, the Falkland crisis is likely to cause a significant increase in regional tensions over territorial disputes, arms buildups, and nuclear programs. The dispute between Chile and Argentina over the Beagle Channel will be the most potentially dangerous flashpoint. Though Santiago has continually professed its neutrality in the Falkland conflict, the Argentines remain distrustful. [redacted]

These territorial conflicts and the likelihood that the Falklands crisis will prompt a new round of major military expenditures underscore the dangers of an arms buildup in the region. Even before the dispute, several South American countries were either planning for or were in the midst of major military modernization programs. The fighting in the Falklands is being carefully assessed by military planners and strategists. So far, their reaction—though tentative and essentially impulsive—stresses the need to acquire new and more sophisticated weapons; accelerate the diversification of weapons suppliers; and, in the case of Brazil and Argentina, expand domestic arms industries. Brazilians, in particular, believe the crisis will be a boon to their already burgeoning arms industry. They reason that neighboring countries as well as many other Third World states will be convinced that the United States and Western Europe cannot be relied upon. [redacted]

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The crash of a British helicopter in southern Chile probably strengthened these suspicions. Buenos Aires was further angered by Chilean naval movements during the fighting, which it perceived as threatening and in support of British strategy. [redacted]

Some Chileans are convinced that Argentina will turn next on Santiago. In part this may be a ploy to convince the United States to resume military sales. Since the Argentine invasion of the Falklands, however, we believe Chilean leaders are convinced that restraint no longer prevails in Buenos Aires and they expect stepped-up Argentine provocations over the Beagle channel dispute. [redacted]

The mutual suspicions and antipathies involved in this dispute between Argentina and Chile—and the likelihood that, should strife occur, Peru, with irredentist aspirations toward Chilean territory, could also be drawn in—typify the potential for armed clashes over a dozen or so other territorial quarrels in the region. The Falklands crisis also has focused attention on Venezuela's longstanding claim to Guyana's Essequibo region. Bilateral talks between Caracas and Georgetown may begin in the latter part of June, and there now seems no immediate danger of Venezuelan military action. In light of the Falklands case, however, Venezuela will stress to Guyana that it is not

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Strong anti-Communist and antileftist sentiment will persist in Argentine society as a whole and in the armed forces in particular. Thus, Soviet hopes of making sales of major weapons systems are unlikely to be realized in the short term. [] 25X1

Over time, the example offered by Peru, concern over the reliability of Western suppliers, and economic problems could make the Argentines more susceptible to Soviet blandishments. Should Argentina establish closer ties with Moscow and purchase substantial amounts of weapons, Brazil—and to a lesser extent Venezuela—would want to consult regularly and closely with Washington on security matters. In particular, we believe Brasilia would be interested in exploring the question of South Atlantic defense and broader issues relating to the maintenance of regional peace. [] 25X1

Prospects for Communist Gains

The crisis has allowed the *Soviets* to make a net advance in a short-term propaganda sense, principally in Argentina. Soviet gains may not be long lasting, however. Most Latin Americans are alarmed by the prospects of closer ties between Moscow and Buenos Aires, and Soviet aggressiveness in exploiting the situation can turn to Soviet disadvantage. Brazilian and Venezuelan officials, for example, cite this concern as a major reason for criticizing US policy. Even Argentine leaders must view the Soviet position in the dispute as cynical and opportunistic. []

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Moreover, there are significant constraints on an expansion of Soviet-Argentine ties. Moscow almost certainly hopes that the crisis will lead to a more favorable bilateral economic relationship but it offers few imports attractive to Argentina. According to Soviet figures for 1981, the USSR bought \$3.3 billion worth of goods from Argentina—mostly grain and meat—but sold to Argentina only \$42.5 million in machinery and nuclear supplies. []

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Perhaps more important, the Communist countries have scant prospect of replacing the United States and Western Europe as suppliers of financial capital to Latin America. Current Communist economic aid flows to Latin America are on the order of \$411 million per year. In addition, the USSR is finding it increasingly difficult to meet the financial needs of its own client states. By contrast, US and Western medium- and long-term capital flows to the region ran about \$24 billion in 1980 and continue to grow. []

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The caution with which *Cuba* first approached the crisis reflected the Castro regime's reluctance to cast its lot with an ideologically unacceptable administration in Buenos Aires, especially one that was likely to emerge a loser. This initial ambivalence quickly gave way to strong support once Havana detected rising pro-Argentine sentiment in other Latin American capitals. Sensing an opportunity to weaken the OAS and reduce US influence in Latin America, the Cubans tried to broaden regional participation in the struggle and prolong it as a means of polarizing the hemisphere. Havana saw this role as a way to insinuate itself back into the mainstream of regional affairs after years of isolation, and to create conditions within Argentina that later could be exploited by Cuba's leftist allies there. [] 25X1

The *Nicaraguans* more instinctively supported Argentina, with none of the hesitance showed by the Cubans. Managua thinks it has already benefited from the South Atlantic crisis. Seeing the United States divided from Latin America on the issue, Nicaragua believes Washington will lose ground in the hemisphere for its Central American policy. Nonetheless, the transparently cynical nature of Cuba's and Nicaragua's alliance with the rightwing regime in Argentina will reduce severely the degree of

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success they will have. Those countries that have become concerned about Cuban and Soviet activities in the Caribbean Basin over the past three years will remain so.

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The Impact in Western Europe

The Anglo-Argentine war in the Falkland Islands will have less impact on Washington's relations with its European Allies than with Latin America. The crisis has not been the central concern to continental NATO members that it has been to many Latin American states, and it has not been viewed in Europe as a major indicator of overall US policy toward NATO. [REDACTED]

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In a sense, the impact of the Falklands on US-West European relations has been limited by the strength of US support for the British. A neutral or pro-Argentine US stance would have shaken the conviction of the Allies that they could count on Washington to support West European interests outside the NATO area. While the Allies have been reassured by US support for London, they have tended to downplay it publicly, in part because their own support for the United Kingdom has been more conditional and measured than Washington's. At the same time, the West Europeans have attempted to minimize damage to their own relations with Latin American states.

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Nevertheless, we believe the crisis will affect some important Alliance issues. [REDACTED]

[REDACTED] it will sharpen NATO's debate about the Alliance's role in the out-of-area interests of member states. The war's aftermath probably will also focus the Allies once more on the differences between their interests in Latin America, on the one hand, and US policy on the other. [REDACTED]

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The "Out-of-Area" Question

The war in the Falklands has significant implications for the ongoing NATO debate over the Alliance's role in supporting the global interests of member states. During this crisis, there was no discussion of the provision of military aid by NATO, as an alliance, to the British. Nor did any NATO member offer to provide the military support necessary to take up the slack created by the transfer of the British fleet from the North Atlantic to the Falklands area. [REDACTED]

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A similar pattern could be seen in future Alliance reactions to US transfer of forces to such possible troublespots as the Persian Gulf. NATO members have shown no willingness to expand the Alliance's terms of reference to institutionalize protection of Western interests outside the North Atlantic area. Similarly, chances are slim that the Allies will agree to earmark forces to replace any US troops or equipment sent from Europe to another area, especially if the West Europeans would be expected to share the cost. [REDACTED]

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On the other hand, the United States can expect significant ad hoc and unilateral support for operations in the Persian Gulf and elsewhere. [REDACTED]

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France probably can also be counted on to help certain US projects, again assuming that Paris is in agreement with the direction of particular US policies. The Mitterrand government has already shown itself willing to cooperate with US deployments to the Persian Gulf and seems willing as well to take the lead in protecting Western interests in Francophone Africa. [REDACTED]

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No other Ally is capable of much direct military support, unless Belgium decides to reactivate its Zaire policy in the event of renewed instability in that area.



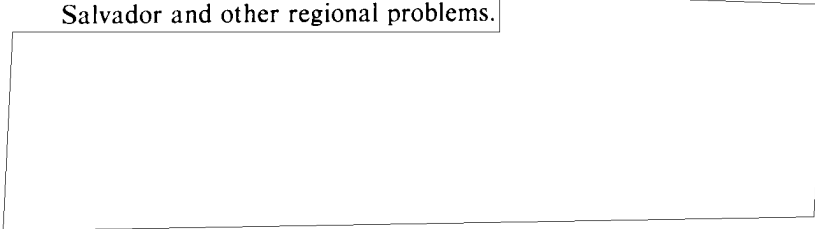
West European-Latin American Relations

The Allies are acutely aware of the danger that the Falklands crisis poses to US-Latin American and West European-Latin American relations. From the earliest days of the crisis, the Allies tried to minimize damage to both sets of relations, a process that will accelerate now that the war is virtually over. This is an urgent concern to many Allies.

because of the perceived danger that the USSR and Cuba could benefit from strained relations between NATO members and Latin America, and because the Allies hope to expand once promising economic and political ties to countries in the region.

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The war and its aftermath probably will exacerbate some US-West European differences regarding El Salvador and other regional problems.



On the other hand, the Falklands war has done little to improve West European-Latin American relations. EC sanctions against Argentina will not be quickly forgotten, and the automatic NATO political support for the United Kingdom in the Falklands war will make it more difficult for West Europeans to present themselves as having independent policies toward the region. This situation may, in fact, make some Allies even more determined to demonstrate independence from the United States in future relations with Latin America.

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